Client Needs

1. Preserve Capital
2. Liquidity
3. Income
4. Growth
5. Tax Minimization
Wealth Creation

Successful investing requires:

- Framework
- Control of Emotions
- Access
1. Five Laws of Wealth Creation:

- Own a few high quality businesses
- Thoroughly understand these businesses
- Ensure these businesses are domiciled in strong, long-term growth industries
- Use other people’s money prudently
- Hold these businesses for the long run

2. Successful people created their wealth through owning private businesses.

- The wealthy people’s portfolio consists of private and public holdings
## Attributes of Private vs. Public

<table>
<thead>
<tr>
<th>Dimension</th>
<th>PRIVATE BUSINESS</th>
<th>PUBLIC BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ownership</strong></td>
<td>Owner/Operator</td>
<td>Operators are separated from Ownership</td>
</tr>
<tr>
<td></td>
<td>Heavily concentrated</td>
<td>Broadly dispersed</td>
</tr>
<tr>
<td></td>
<td>Personal identification</td>
<td>Anonymous</td>
</tr>
<tr>
<td><strong>Management Style</strong></td>
<td>Autocratic</td>
<td>Democratic</td>
</tr>
<tr>
<td></td>
<td>Entrepreneurial</td>
<td>Bureaucratic</td>
</tr>
<tr>
<td></td>
<td>Low turnover</td>
<td>Higher turnover</td>
</tr>
<tr>
<td><strong>Management Risk/Reward</strong></td>
<td>Symmetrical</td>
<td>Asymmetrical</td>
</tr>
<tr>
<td><strong>Time Horizon</strong></td>
<td>Long</td>
<td>Short</td>
</tr>
<tr>
<td><strong>Board Focus</strong></td>
<td>Growth</td>
<td>Governance (Focus is on Risk and Compliance)</td>
</tr>
<tr>
<td><strong>Valuation</strong></td>
<td>Fundamentals – Customers, Sales, Market Share, Margins, etc.</td>
<td>Daily Mark to Market</td>
</tr>
</tbody>
</table>
Co – Invest !!!

Don’t Just Invest…

Co-Invest!
The Future Value Formula,

\[ FV = PV(1+r_{at})^n \]

\[ r_{at} = r_{pt}(1-t) \]

\( r_{at} \) makes a big difference:
- $100,000 invested at 4% for 40 years leads to $480,102
- $100,000 invested at 8% for 40 years leads to $2,172,452
- $100,000 invested at 12% for 40 years leads to $9,305,097
Capitalize on Inefficient Valuations

**Illiquidity discount ⇔ Return premium**

<table>
<thead>
<tr>
<th>Metric</th>
<th>Company X - Public</th>
<th>Company X - Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings (per share)</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>Valuation (Price/Earnings)</td>
<td>10x</td>
<td>6x (40% discount - illiquid)</td>
</tr>
<tr>
<td>Earnings Yield (Earnings/Price)</td>
<td>10%</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

- $100,000 invested at 10% for 40 years leads to $4,525,926
- $100,000 invested at 16.7% for 40 years leads to $47,629,013
The Optimal Portfolio

OUR APPROACH

Public Equity  Public Fixed Income  Cash  Private Equity  Direct  Venture Capital  Real Estate  Infrastructure  Resources

CLIENT NEEDS

Preserve Capital  Liquidity  Income  Growth  Tax Minimization

THE STANDARD APPROACH

Public Fixed Income  Public Equity  Cash

THE WEALTHY INVEST DIFFERENTLY
Slide 7

Future value (FV) is the amount present value (PV) invested over a certain period of time (n), which is assumed to compound annually at an after-tax interest rate \( r_{at} \), where \( r_{at} \) is derived from the pre-tax interest rate \( r_{pt} \) net of tax. The formula is:

\[
FV = PV \times (1 + r_{at})^n
\]

where PV is the present value equal to 100,000, \( r_{at} \) equal to 4% (or 0.04) represents the after-tax interest rate that is invested within the 40 years time frame:

- \( FV = 100,000 \times (1 + 0.04)^{40} = 480,102 \)
- \( FV = 100,000 \times (1 + 0.08)^{40} = 2,172,452 \)
- \( FV = 100,000 \times (1 + 0.12)^{40} = 9,305,097 \)

Slide 8

\[
FV = 100,000 \times (1 + 0.1)^{40} = 4,525,926
\]

\[
FV = 100,000 \times (1 + 1/6)^{40} = 47,629,013
\]

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